

**MAIDSTONE BOROUGH COUNCIL**

**AUDIT COMMITTEE**

**19 MAY 2008**

**REPORT OF THE HEAD OF INTERNAL AUDIT AND RISK  
STRATEGY**

**Report prepared by Brian Parsons**

**1. MAIDSTONE/ASHFORD INTERNAL AUDIT PARTNERSHIP**

**1.1 Issue for Decision**

1.1.1 The Internal Audit Partnership between Maidstone and Ashford commenced on 1 September 2005. The agreement is for a three-year period which ends on 31 August 2008. If the arrangements are to continue it will be necessary for both parties to agree an extension.

1.1.2 As the Committee with the key interest in Internal Control, it is appropriate for the Audit Committee to comment on any proposal to change or to extend the internal audit arrangements.

**1.2 Recommendation of the Head of Internal Audit & Risk Strategy**

It is recommended that:

1.2.1 The Audit Committee endorses the extension to the internal audit partnership with Ashford prior to the Cabinet Member for Corporate Resources being asked to formally approve an extension. The endorsement would be on the basis that:

- The Internal Audit Partnership with Ashford is extended for a period of five years, to expire on 31 August 2013.
- The financial arrangements will continue on the basis of the management fee that was agreed with Ashford in 2005 as adjusted on an annual basis in accordance with the Retail Price Index.
- An appropriate amendment will be made to the existing partnership agreement (subject to confirmation from Ashford that it wishes to extend the arrangements).

### 1.3 Reasons for Recommendation

- 1.3.1 The audit partnership arrangements with Ashford has meant that both authorities have achieved a higher quality of Internal Audit and a more resilient service than either could achieve on their own without incurring a higher cost. This is in accordance with the Council's definition of partnership as follows: "an agreement between two or more independent bodies to work collectively to achieve a clear objective and more together than they could alone"
- 1.3.2 The partnership is considered to have been very successful and has achieved the objectives that were originally set for it. The specific benefits of the partnership are set out in a table at Appendix A. The table uses the principal sub-headings that were shown in the original Proposal document and highlights the progress that has been made against each one.
- 1.3.3 The arrangements are strongly supported by the staff working within the respective teams. The partnership has already provided considerable development opportunities for team members.
- 1.3.4 Surveys at both authorities have shown a high level of client satisfaction with the internal audit arrangements. The various surveys have confirmed internal audit to be at a level between 'good' and 'excellent'.
- 1.3.5 The Chief Officer Management Team supports the extension of the internal audit partnership in accordance with the recommendation at 1.2.1.

#### *Background*

- 1.3.6 The Internal Audit Partnership with Ashford was set up to operate for a period of three years from 1 September 2005.
- 1.3.7 The Audit Partnership was the first shared-service partnership that Maidstone had entered into with a neighboring District Council. It was pioneering in the sense of being the first but also because virtually all of the elements that needed to be considered and all of the mechanisms that needed to be set up, were new. There was no written down internal guidance and no precedent to follow and no one within the organization who was able to offer their experience through having created a similar arrangement. Nevertheless, the arrangements that were set up and the approach that was taken have since proven to be effective and robust in practice.

- 1.3.8 As the audit partnership was the first shared service arrangement, it is now the first to be recommended for an extension as the arrangements are due to expire on 31 August 2008.
- 1.3.9 A number of partnership arrangements have emerged over the last couple of years with the likelihood that more and bigger shared service partnerships will be created in the coming years. It is probable that shared service arrangements will flourish if partnership working with Ashford, Tunbridge Wells and Swale is developed more formally and if this provides an environment for shared services to thrive.
- 1.3.10 The original Proposal document for the Partnership (dated March 2005) set out the following "The Partnership will be operated in a way which brings the maximum benefit to both of the partners with the minimum overhead. The Partnership will operate on the principles of efficiency, effectiveness and economy. The arrangements will be kept as simple and straightforward as possible; risks will be minimised, goodwill will be maximised. However, the Partnership will be subject to a written agreement, which will incorporate the principal issues set out in this paper. The initial agreement will be for a minimum period of three years, subject to satisfactory service being provided under the agreement. It is anticipated that the agreement will be renewed for a further three years following a satisfactory review during the third year of operation."

*A successful partnership*

- 1.3.11 The Partnership is considered to be successful, having achieved the objectives that were set out in the original Proposal document. The benefits of the partnership since it was created in 2005, and the further benefits that will accrue through extending the agreement are set out at Appendix A. It is considered that the benefits of continuing with the partnership are compelling.
- 1.3.12 The extension to the partnership will allow even greater sharing of resources to take place in future, in particular allowing a coordinated audit plan to be created which will allow the auditors to work more frequently on 'the other site' and to share audit work programmes. This will produce even greater savings and efficiencies in the future.
- 1.3.13 The audit partnership arrangement with Ashford has meant that both authorities have achieved a higher quality of Internal Audit and a more resilient service than either could achieve on their own without incurring a higher cost.
- 1.3.14 The arrangements are strongly supported by the staff working within the respective teams. The partnership has already provided considerable development opportunities for team members.

1.3.15 Surveys at both authorities have shown a high level of client satisfaction with the internal audit arrangements, The various surveys have confirmed internal audit to be at a level between 'good' and 'excellent'.

1.3.16 The existence of the partnership and the quality of work produced by the partnership teams has led to savings for both authorities. The quality of audit means that the Audit Commission can place reliance on the work of Internal Audit. If it could not do so, the external auditors would find it necessary to do more work and this would be reflected in the fee charged by the Commission. A more specific example is that the external auditors are required to review the quality of the internal audit service on a triennial basis. In 2008/09 the external auditors will be reviewing *the partnership* rather than the separate audit arrangements at each authority. This should then be reflected in the audit fee charged to each authority.

#### *Financial arrangements*

1.3.17 The financial arrangements that were agreed in 2005 were based around Ashford paying an annual charge. The original charge has been adjusted (increased) on an annual basis in accordance with the retail price index.

1.3.18 The original charge was based on the salary of the Head of Internal Audit & Risk Strategy (HIARS), including on-costs and relevant overheads. However, 15% of the total costs were retained by Maidstone in recognition of the HIARS's ongoing role for risk management at Maidstone. The remaining 'pure audit' cost was then divided 50/50 between the two authorities.

#### 1.4 Alternative Action and why not Recommended

1.4.1 If the audit partnership is not extended the Council will cease to receive the income from Ashford Borough Council. This will create a budgetary pressure.

1.4.2 If the audit partnership is not extended the staff within the Internal Audit team will have reduced opportunities for personal development. This may lead to some members of the team moving on.

1.4.3 If the audit partnership agreement is not extended it will provide a severe blow to the current emphasis on shared service working both at Maidstone and at Ashford. It will send negative signals to the staff involved in the audit partnership and also to those staff who are

involved in the other shared service partnerships that have emerged or are proposed.

1.5 Impact on Corporate Objectives

1.5.1 The Council’s Strategic Plan 2008/2011 sets out the Council’s commitment to the principles of working in partnership with other local authorities. The extension to the Internal Audit Partnership with Ashford will allow the commitment to be confirmed in practice.

1.6 Risk Management

1.6.1 There are a number of risks that will apply should the audit partnership not be extended. These include potential reductions in service efficiency and quality, lost income, lower service resilience, reduced staff morale and a negative perception of shared service arrangements.

1.7 Other Implications

1.	Financial	X
2.	Staffing	X
3.	Legal	X
4.	Social Inclusion	
5.	Environmental/Sustainable Development	
6.	Community Safety	
7.	Human Rights Act	
8.	Procurement	

1.7.1 The extension to the audit partnership will mean that the annual fee charged to Ashford will be retained (rather than lost).

1.7.2 The extension to the partnership is supported by the staff concerned and it will continue to provide positive benefits in terms of opportunities for personal development.

1.7.3 A formal variation to the existing agreement will be necessary.

1.8 Conclusions

1.8.1 The internal audit partnership between Maidstone and Ashford has been a significant success, which has benefited both authorities. The extension of the arrangements for a further five years is a logical and constructive means of securing the benefits that have arisen over the last three years and will provide an opportunity for the partnership to continue to improve and to maximize its efficiency and effectiveness, to the ongoing benefit of both authorities.

1.9 Background Documents

1.9.1 The Proposal document entitled 'Working Together: Working Better' dated March 2005.

The Partnership Agreement.

<b><u>NO REPORT WILL BE ACCEPTED WITHOUT THIS BOX BEING COMPLETED</u></b>			
Is this a Key Decision?	Yes	<input type="checkbox"/>	No <input checked="" type="checkbox"/>
If yes, when did it appear in the Forward Plan?			
_____			
Is this an Urgent Key Decision?	Yes	<input type="checkbox"/>	No <input checked="" type="checkbox"/>

## APPENDIX A

### Maidstone/Ashford Internal Audit Partnership

#### Assessment of Benefits for both authorities since the partnership commenced in September 2005

<b>Management</b>	<p>The Head of Internal Audit &amp; Risk Strategy is responsible for both audit teams. This has provided a strong, experienced dedicated audit management presence at both authorities.</p> <p>An extension to the agreement provides an opportunity for the management experience gained in partnership working at both authorities in the last three years to be developed further.</p>
<b>Staff</b>	<p>The staff in both teams have responded very positively to the partnership arrangements. All staff members view the arrangements as an improvement to the previous situation. Staff have benefited from increased opportunities and a broader working environment. All of the staff are supportive of an extension to the arrangements.</p> <p>An extension to the agreement would be well received by staff within both teams. The extension will provide an opportunity to develop staff in the longer term and to create additional skills in several specialist audit areas.</p>
<b>Planning</b>	<p>Opportunities have been taken to plan and coordinate audit work where possible. This has meant that 'the same' audit has been repeated at the 'other authority'. This has reduced the relative time spent on each audit, increased efficiency by allowing the audit preparatory work to be reused, and allowed best practice identified at one authority to be recommended at the other.</p> <p>An extension to the agreement would allow audit plans to be co-coordinated more closely in the future, allowing greater savings and efficiencies to be achieved.</p>

<b>Standards</b>	<p>The statutory Code of Practice for Internal Audit in Local Government (2006) sets the standards for Internal Audit work. A self assessment in 2007, which was validated by a peer review, has confirmed that the internal audit service at both authorities now fully meets the statutory standards.</p> <p>An extension to the agreement would mean that the statutory standards will be maintained.</p>
<b>Audit Committee</b>	<p>Since the partnership has been set up, both authorities have introduced an Audit Committee. The Head of Audit has been supportive of the creation of the Committee and assisted in its implementation. The Head of Audit attends all meetings of the Audit Committee at each authority and is responsible for the provision of reports on Internal Audit to both authorities. A sound working relationship has been created with the Audit Committee Chairman at each authority.</p> <p>An extension to the agreement would provide continuity to the reporting arrangements to each Audit Committee.</p>
<b>Reporting and Follow-ups</b>	<p>Reporting and follow-up arrangements have been strengthened at both authorities. The standard of reports has been improved particularly at Ashford where follow-ups to all audit reports have also been introduced. A process has been implemented at both authorities during 2007/08 that will ensure that action will be taken on all agreed recommendations.</p> <p>An extension to the agreement will mean that effective internal audit arrangements will continue at both authorities and that continuity in terms of reporting and follow-ups will be maintained.</p>
<b>Standardisation</b>	<p>The 'audit system' between Maidstone and Ashford has been standardized with the majority of audit processes now consistent between the two. This allows Maidstone auditors to work at Ashford and vice versa. It also allows sharing of documents and work programmes.</p> <p>An extension to the agreement means that the benefits of standard processes and procedures will continue to be obtained.</p>



<p><b>Audit Automation</b></p>	<p>Following the creation of the partnership, Maidstone adopted the Team Mate audit automation system, which had previously been implemented in Ashford. Both teams therefore now use the same system. This facilitates auditors moving between the sites and allows electronic files to be shared. Maidstone has used the IDEA electronic data analysis and interrogation system for a number of years. The creation of the partnership has meant that IDEA is now also used for audit work at Ashford.</p> <p>An extension to the agreement will allow the remaining Team Mate modules to be developed and implemented. Further coordination of electronic files will lead to greater efficiencies. The use of IDEA can be further developed to assist the efficiency and effectiveness of the audit processes.</p>
<p><b>External Audit</b></p>	<p>The adoption by the Audit Commission of the International Standards for Auditing has added to the desirability of external and internal audit working more closely. This helps to make best use of audit resources and also influences the annual audit fee paid by each authority to the Commission. Since the creation of the partnership, positive and effective working relationships with the external auditors have been maintained and enhanced. Meetings between the external auditors and 'the partnership' now take place, which avoids the need for the external auditors to meet separately with each authority's Head of Audit. In 2008/09 the triennial review of Internal Audit will consider the joint internal audit arrangements, meaning that costs of the review will be shared between Maidstone and Ashford thereby reducing the overall external audit charge.</p> <p>An extension to the agreement will allow the efficiencies and savings already secured in the working arrangements with the Audit Commission to continue.</p>
<p><b>Customer Care</b></p>	<p>High standards of customer care are embedded within the working arrangements of the audit partnership and permeate the work of the teams at Maidstone and Ashford. It is apparent from client responses that the emphasis on good customer (client) care is appreciated.</p> <p>An extension to the agreement will allow high standards of customer care to be maintained.</p>

<p><b>Client Satisfaction</b></p>	<p>Client satisfaction with the internal audit service is measured at both authorities in two ways; firstly an annual satisfaction survey is carried out, which is directed principally at Directors, Heads of Service and senior managers. Secondly, a much shorter questionnaire is provided to the key auditee (the member of staff who was the key contact for the auditor during the audit). The results of the annual survey (2007) are that the overall satisfaction level at Maidstone and at Ashford is between 'good' and 'excellent'. The satisfaction level has increased year on year. The results of the 'auditee' survey (2007/08) also show satisfaction levels as good/excellent.</p> <p>An extension to the agreement will allow the high standards of client satisfaction to be maintained and improved.</p>
<p><b>Resilience</b></p>	<p>One of the reasons for initially giving consideration to an audit partnership was to provide greater resilience to the internal audit arrangements. This reflected that audit teams at District Councils tend to be small and therefore the service is vulnerable where there is staff turnover. Since the creation of the partnership there has been very little turnover as the staff enjoy working in the partnership environment. However, the larger grouping means that the service is less vulnerable to significant disruption should a member of either team leave.</p> <p>An extension to the agreement will allow the more resilient arrangements to be maintained.</p>
<p><b>Other benefits</b></p>	<p>The sharing of resources between the Maidstone and Ashford teams has provided a number of 'other benefits' and efficiencies, such as:</p> <ul style="list-style-type: none"> <li>• Experience and expertise has been shared</li> <li>• Reference material and professional publications have been shared</li> <li>• Attendance at, for example, the Kent Audit Group has been rationalized as only one member of the team needs to attend to represent both authorities.</li> <li>• Joint training has taken place</li> <li>• A joint recruitment exercise was carried out.</li> </ul> <p>An extension to the agreement will allow existing benefits to be maintained and new benefits to be established.</p>